

**Public Utilities Commission
State of California**

Water Branch
Office of Ratepayer Advocates

Report on the
Application for a General Increase in Rates
of California American Water Company
in its Village District

Application No. 04-03-024

Los Angeles, California
July 6, 2004

C O N T E N T S

1	INTRODUCTION AND SUMMARY OF EARNINGS .	1
2	CUSTOMERS AND CONSUMPTION . . .	3
3	OPERATING REVENUES	4
4	EXPENSES	5
5	PLANT	25
6	DEPRECIATION	27
7	RATEBASE	28
8	MISCELLANEOUS	30
9	DESIGN OF RATES	32
10	ATTRITION	40

RESULTS OF OPERATION TABLES A THROUGH M

ATTACHMENT A: ESCALATION

ATTACHMENT B: ORA REPORT, "Programs For Low
Income Water Customers," dated October 31, 2003

Foreword

Victor Chan, Patricia Esule, Eric Matsuoka, and Lana Tran,
prepared this report.

CHAPTER 1
INTRODUCTION AND SUMMARY OF EARNINGS

1.1 California American Water Company (Cal-Am) serves approximately 20,500 (primarily residential) customers in its Village District. The main Village Service Area includes customers located in the communities of Newbury Park and the City of Thousand Oaks. Cal-Am also serves customers in the unincorporated area of Ventura County known as Las Posas Estates which is one of two small separate satellite systems. The other satellite system, Conejo Oaks, is located in the City of Thousand Oaks, east of the main system.

1.2 The last increase in rates granted Cal-Am was authorized by Decision 95-12-041.

1.3 Cal-Am filed Application 04-03-024 on March 18, 2004, requesting authorization to decrease in revenues over present rates by \$1,254,000 or 6.36% in Test Year 2005, decrease in revenues by \$24,900 or 0.13% in Test Year 2006 and increase in revenue by \$4,700 or 0.03% in Attrition Year 2007. Cal-Am requested a return on equity of 10.50% for each year, which results in a return on ratebase of 7.85%, 8.07%, and 8.24% from year 2005 to 2007, after considering its cost of debt.

1.4 This report incorporates the figures of weighted long-term debt and rate of return from a separate ORA report entitled "Water Branch's Report on the Cost of Capital of California American Water Company," dated July 2004.

1.5 Cal-Am's Report on the Results of Operations dated March 2004, contains a description of its corporate

history and present operations. For ORA's purpose, the materials contained in that report will not be duplicated.

1.6 Tables A-1 and A-2 set forth ORA's and Cal-Am's estimates for the Summary of Earnings at present, proposed, and recommended rates for Test Years 2005 and 2006. The tables also show the differences in dollars and percent. In compliance with D.89-11-058, the present revenue for the second test year has been calculated by using flow-through treatment based on the utility's proposed rates for the first test year. All Tables are located at the end of this report.

ORA's Recommendation

1.7 Upon investigation, ORA recommends a decrease in revenue of \$2,024,800 or 10.27% in Test Year 2005, an increase in revenue of \$17,000 or 0.09% in Test Year 2006, and a decrease in revenue of \$171,500 or 0.96% in Attrition Year 2007. This translates into a net overall decrease of 10.5%. ORA recommends that the tariff be adjusted only once in 2005 to reflect this change.

1.8 Compared to Cal-Am's application, ORA's recommendation for increases are based on its:

- Lower estimates of Operation, Maintenance, and Administration expenses (Chapters 4),
- Lower estimates of additions to Plant (Chapter 5),
- Lower Ratebase (Chapter 7), and
- Lower Cost of Capital (Separate Report).

1.9 In addition, ORA recommends that the Commission adopt a 15% discount for qualifying low-income customers.

CHAPTER 2
CUSTOMERS AND CONSUMPTION

2.1 ORA and Cal-Am agree in their estimates for Test Years 2005 and 2006 of Average Consumption per Customer and the estimates of the Average Services.

Consumption

2.2 For Test Year 2005 and 2006, Cal-Am estimated an average consumption of water per year for each Residential customer of 254.8 hundred cubic feet (Ccf) in Village District. ORA believes these estimates are reasonable. They represent the results of a regression analysis using 30 years of weather data and 10 years of recorded consumption. This is the standard method that the Commission approved in D.04-06-018, its rate case plan for Class A water utilities.

2.3 For the other classes of service, Commercial, Public Authority, and Industrial, Cal-Am also based its estimate on five years of recorded consumption. ORA believes these results are reasonable as well.

Unaccounted Water

2.4 For unaccounted water, Cal-Am requests 4.78% based on recorded figures of previous five years. ORA finds that to be reasonable because it reflects actual experience.

Customers

2.5 Cal-Am estimates an annual increase in service connections by applying the average growth in connections to average number of customers for each year. The estimated growth is based on averages from 1999 through 2003. ORA believes that these estimates, which are based on actual increases, are reasonable.

CHAPTER 3
OPERATING REVENUES

3.1 This chapter provides ORA's analysis and recommendations of operating revenues for test years 2005 and 2006.

3.2 For Test Years 2005 and 2006, ORA and Cal-Am concur in their forecasts of revenue because they concur in their estimates of consumption and growth of customers, as described in Chapter 2, Customers and Consumption.

3.3 ORA includes an estimate of \$1,200 per year in additional Other Revenue due to ORA concurring in Cal-Am's request to increase the charge for reconnecting service as described in Chapter 11.

3.4 In compliance with D.89-11-058, the present revenue for the second Test Year 2006 has been calculated based on the proposed rates for the first Test Year 2005.

CHAPTER 4

EXPENSES

4.1 This chapter provides ORA's analyses and recommendation of Cal-Am's request of allowances for expenses. ORA has reviewed Cal-Am's application, analyzed the accompanying work papers, performed a field trip, and considered Cal-Am's responses to data requests to develop ORA's independent estimates.

4.2 The escalation factors used by ORA are those recommended by the Energy Rate Design and Economic Branch, dated April 2004 as shown in Attachment A; whereas, Cal-Am used data for December 2003.

4.3 ORA and Cal-Am used the same five years of adjusted data escalated to the Test Years for estimating most of the expenses for the Test Years.

4.4 As part of its analysis, ORA compared the expenses in Cal-Am's application and workpapers to the expenses contained in the 1999-2003 annual reports Cal-Am filed with the Commission. In many cases, the expenses in the Cal-Am's application failed to match the expense figures in the annual report. In response to ORA's request, Cal-Am attempted to provide ORA with a reconciliation of these numbers. However, the reconciliation is deficient. As demonstrated below, in some cases Cal-Am stated that a figure in an expense account in the application differed from the annual report because the expenses in the application included expenses that were moved from another account. However, when the account in the annual report from which Cal-Am stated the expenses were transferred, ORA found that the account showed a zero balance. For the accounts that Cal-Am has not been able to reconcile, ORA has

used the numbers in the annual report because the annual report is the official controlling document.

4.5 Cal-Am's request for total expense in its application and ORA's recommendation for total expense in 2005 and 2006 are summarized and shown in the table below:

	2005		2006	
Expenses	Cal Am	ORA	Cal Am	ORA
Payroll	\$ 789,263	\$ 808,092	\$ 808,994	\$ 828,659
Operation	10,605,211	10,571,327	10,691,062	10,655,886
Maintenance	190,399	158,791	195,844	147,554
Adminstration & General	978,704	970,020	991,511	981,579
Subtotal	11,774,314	11,700,138	11,878,417	11,785,019
General Office Allocation	1,799,894	1,799,894	1,856,570	1,856,570
RWE Expense Savings	(41,522)	(41,522)	(102,348)	(102,348)
Total Requested Expenses	14,321,948	14,266,602	14,441,633	14,367,900

Payroll

4.6 Cal-Am requested \$789,263 for payroll expense in 2005 and \$808,994 in 2006. The request failed to include several wage differentials agreed to between Cal-Am and the Utility Workers Union of America AFL-CIO, Local 508A. Cal-Am has now add the wage differentials to the appropriate hourly rates for employees who attain formal Department of Health Services certificates, Forklift Operator certificates, and Class A Driver licenses. These additions increase the payroll expenses to \$808,092 in 2005 and \$828,659 in 2006, as shown in the Summary Expense Table in Paragraph 4.5.

Operation Expenses

4.7 Operation Expenses section includes Source of Supply Miscellaneous, Purchase Water, Pumping Expense Miscellaneous, Purchase Power, Water Treatment Miscellaneous, Storage Facilities, Transmission and

Distribution-Meters, Transmission and Distribution-Customer Installation, Customer Accounts-Records and Collection and Miscellaneous, Customer Accounts Miscellaneous, and Uncollectibles. Cal-Am and ORA estimates for Test Years 2005 and 2006 are shown in the table below

Acct No.	Expenses	2005		2006	
		Cal Am	ORA	Cal Am	ORA
703	Source of Supply	\$ 33,609	\$ 11,862	\$ 34,570	\$ 12,118
704	Purchase Water	10,245,811	10,245,811	10,326,639	10,326,639
725	Pumping Expense	159	95	164	97
726	Purchase Power	235,837	235,837	237,669	237,669
743	Water Treatment	13,025	11,649	13,398	11,900
752	Storage Facilities	16,078	12,364	16,538	12,631
754	T & D-Meters	1,582	1,582	1,627	1,627
755	T & D-Cust. Install	12,756	9,383	13,121	9,589
756	T & D-Misc.	21,326	21,326	21,936	21,936
773	Cust. Acct-Record	4,125	4,125	4,243	4,243
774	Cust. Acct-Misc.	4,712	1,103	4,847	1,127
775	Uncollectibles	16,191	16,191	16,309	16,309
	Total -Operation Exp	10,605,211	10,571,327	10,691,061	10,655,886

4.8 ORA based its analysis on the expense numbers reported in Cal-Am Annual Reports filed for 1999 through 2003.

4.9 ORA made adjustments to Cal-Am recorded numbers shown in its work papers for certain Account Numbers. The adjustments to each recorded Account Numbers are detailed in the paragraphs below.

Account Number 703: Source of Supply-Miscellaneous

4.10 The purpose of the table below is to show Cal-Am recorded expenses for this account in its workpaper and how it differs with the recorded numbers as filed in Cal-Am Annual Report. Cal-Am stated that the number its application and workpapers for account 703 differed from its annual report because its application number included amounts transferred from account 743. However, Cal-Am's

annual report shows that there were no costs in accounts 743 or 703.

Source	Acct No.	Description	Recorded Years				
			1999	2000	2001	2002	2003
Workpaper	703	Purchase Power	\$ -	\$ -	\$ -	\$ 20,276	\$ -
		Less: Error				(20,276)	
		Mat. & Supply	-	-	-	-	433
		Misc. Exp.	622	9	345	79	387
		Telemetry	-	-	-	29,785	24,664
		Add: Telemetry Costs from Acct. 743	33,267	32,984	30,913	-	-
		Subtotal	33,889	32,993	31,258	29,864	25,484
Annual Rep	703	Source of Supply	-	-	-	50,140	26,258
	743	Water Treatment	-	-	-	26,908	12,016

4.11 ORA disallowed some numbers for Miscellaneous Expense (Misc. Exp) and Add: Telemetry Cost from Acct. 743.

4.12 ORA disallowed the Miscellaneous Expense number in 1999, 2000, and 2001 for the following two reasons:

- The Annual Report reported no expenses for Account 703 in those years as shown in the table above.
- Cal-Am failed to show a complete accounting trail in using the numbers as recorded in its application and work paper.

4.13 ORA disallowed the Telemetry Cost Expense number in 1999, 2000, and 2001 for the following three reasons:

- The Annual Report reported no expenses for Accounts 703 and 743 in those years as shown in the table above.
- There is no recorded expense in Account 743 to be adjusted to Account 703.
- Cal-Am failed to show a complete accounting trail in

using the numbers as recorded in its application and work paper.

4.14 ORA recommend expenses for Account Number 703 are:

Source	Acct No.	Description	Recorded Years				
			1999	2000	2001	2002	2003
Workpaper	703	Purchase Power	\$ -	\$ -	\$ -	\$ -	\$ -
		Less: Error				-	
		Mat. & Supply	-	-	-	-	433
		Misc. Exp.	-	-	-	79	387
		Telemetrying	-	-	-	29,785	24,664
		Add: Telemetrying Costs from Acct. 743	-	-	-	-	-
		Subtotal	-	-	-	29,864	25,484
Annual Report	703	Source of Supply	-	-	-	50,140	26,258
	743	Water Treatment	-	-	-	26,908	12,016

Account Number 704: Purchase Water

4.15 ORA considers Cal-Am estimate for Purchase Water expenses in 2005 and 2006 reasonable after reviewing the data available.

Account Number 725: Pumping-Miscellaneous

4.16 The purpose of the table below is to show Cal-Am recorded expenses for this account in its work paper and how it differs with the reported numbers as filed in Cal-Am Annual Report as follows:

Source	Acct No.	Description	Recorded Years				
			1999	2000	2001	2002	2003
Workpapers	725	Operating-Misc	\$ 178	\$ 24	\$ 80	\$ 565	\$ (129)
		Operating-Mat'l & Supply	240	(240)	-	-	-
		PY Accrual Adjustment	-	-	-	(414)	414
		Subtotal	418	(216)	80	151	285
Annual Report	725	Pumping-Misc.	-	-	-	564	813

4.17 ORA disallowed the Pumping-Operating Miscellaneous Expense and Pumping-Operating Materials and

Supplies Expense numbers in 1999, 2000, and 2001 for the following two reasons:

- The Annual Report reported no expenses for Account 725 in those years as shown in the table above.
- Cal-Am failed to show a complete accounting trail in using the numbers as recorded in its application and work paper.

4.18 RA recommend expense for Account Number 725 are:

Description	Recorded Years					
	1999	2000	2001	2002	2003	
Operating-Misc	\$ -	\$ -	\$ -	\$ 565	\$ (129)	
Operating-Mat'l & Supply	-	-	-	-	-	
PY Accrual Adjustment	-	-	-	(414)	414	
Subtotal	-	-	-	151	285	
Pumping-Misc.	-	-	-	564	813	

Account Number 726: Purchase Power

4.19 ORA considers Cal-Am estimate for Purchase Power expenses in 2005 and 2006 reasonable after reviewing the data available.

Account Number 743: Water Treatment

4.20 The purpose of the table below is to show Cal-Am recorded expenses for this account in its work paper and how it differs with the reported numbers as filed in Cal-Am Annual Report as follows:

	Acct		Recorded Years				
Source	No.	Description	1999	2000	2001	2002	2003
Work	743	Misc. Operating	\$ 6,751	\$ 4,743	\$ 9,798	\$ 310	\$ -
Papers		Less: Move Security Cost to Acct 799	-	-	5,840	-	-
		Dept. Health Services	-	-	-	19,579	10,161
		Adj. DHS	-	-	7,421	(7,421)	-
		Electricity Pumping	33,267	32,984	30,913	-	-
		Less: Move Telemetry Cost to Acct 703	(33,267)	(32,984)	(30,913)	-	-
		Overnight Shipping	-	-	-	209	-
		Chemicals	-	-	-	233	229
		Security Services	-	-	-	6,810	1,855
		Less: Move Security Costs to Acct 799	-	-	-	(6,810)	-
		Subtotal	6,751	4,743	23,059	12,910	12,245
Annual	743	Water Treatment	-	-	-	26,908	12,016
Report	799	General Expenses Misc.	155,301	143,029	110,496	174,700	149,082

4.21 ORA disallowed the Water Treatment Miscellaneous Operating Expense numbers in 1999, 2000, and 2001 for the following three reasons:

- The Annual Report reported no expenses for Account 743 in those years as shown in the table above.
- There are no expenses reported in Account 743 to be moved into another account.
- Cal-Am failed to show a complete accounting trail in using the numbers as recorded in its application and work paper.

4.21 ORA used the recorded number in 2003 for the latest Department of Health Services expense and escalated it to 2005 and 2006. ORA consider using the latest recorded expense for estimating is better than using a five years inflated average as it reflects the most current cost available.

4.22 ORA used the recorded number in 2002 for Water Treatment-Overnight Shipping expense and escalated it to

2005 and 2006. This is the only recorded number for the years 1999 through 2003. ORA consider using the latest recorded number to estimate this expense better than using a five years inflated average as it reflects the most current cost available.

4.23 ORA used the recorded number in 2003 for the latest Water Treatment-Chemicals expense and escalated it to 2005 and 2006. ORA consider using the latest recorded number in estimating the expense better than using a five years inflated average as it reflects the most current cost available.

4.24 ORA analysis of Account Number 743 is shown as follows:

Source	Acct No.	Description	Recorded Years				
			1999	2000	2001	2002	2003
Work	743	Misc. Operating	\$ 6,751	\$ 4,743	\$ 9,798	\$ 310	\$ -
Papers		Less: Move Security Cost to Acct 799	-	-	5,840	-	-
		Dept. Health Services	-	-	-	19,579	10,161
		Adj. DHS	-	-	7,421	(7,421)	-
		Electricity Pumping	33,267	32,984	30,913	-	-
		Less: Move Telemetry Cost to Acct 703	(33,267)	(32,984)	(30,913)	-	-
		Overnight Shipping	-	-	-	209	-
		Chemicals	-	-	-	233	229
		Security Services	-	-	-	6,810	1,855
		Less: Move Security Costs to Acct 799	-	-	-	(6,810)	-
		Subtotal	6,751	4,743	23,059	12,910	12,245
Annual	743	Water Treatment	-	-	-	26,908	12,016
Report	799	General Expenses Misc.	155,301	143,029	110,496	174,700	149,082

Account Number 752: Transmission and Distribution-Storage (T&D)

4.25 The purpose of the table below is to show Cal-Am recorded expenses for this account in its work paper and how it differs with the recorded numbers as filed in Cal-Am

Annual Report as follows:

Source	Acct No.	Description	Recorded Years				
			1999	2000	2001	2002	2003
Workpapers	752	Operating-Misc	\$ -	\$ -	\$ 13,728	\$ 4,129	\$ -
		Misc. Plant Operating	16,416	16,698	-	-	-
		Groundskeeping	-	-	-	5,320	15,873
		M & S Maint. Pump	-	-	-	1,330	-
		Subtotal	16,416	16,698	13,728	10,779	15,873
Annual Report	752	T & D Storage	18,177	28,317	21,541	6,093	2,401

4.26 ORA allowed the \$6,093 for 2002 and \$2,401 for 2003. These are the recorded numbers in the Annual Reports. Cal-Am showed \$10,779 for 2002 and \$15,873 for 2003 in its application.

4.27 ORA analysis of Account Number 752 is shown as follows:

Source	Acct No.	Description	Recorded Years				
			1999	2000	2001	2002	2003
Workpapers	752	Operating-Misc	\$ -	\$ -	\$ 13,728	\$ 773	\$ -
		Misc. Plant Operating	16,416	16,698	-	-	-
		Groundskeeping	-	-	-	5,320	2,401
		M & S Maint. Pump	-	-	-	-	-
		Subtotal	16,416	16,698	13,728	6,093	2,401
Annual Report	752	T & D Storage	18,177	28,317	21,541	6,093	2,401

Account Number 754: Transmission and Distribution-Meter

4.28 ORA considers Cal-Am estimate for Transmission and Distribution-Remove and Reset Meter expenses in 2005 and 2006 reasonable after reviewing the data available.

Account Number 755: Transmission and Distribution-Customer

4.29 ORA consider Cal-Am revised estimate expenses for Transmission and Distribution-Customer Installation to be reasonable after reviewing the data available. Cal-Am requested \$12,756 in 2005 and \$13,121 in 2006. Cal-Am now revises its estimate to \$9,383 in 2005 and \$9,589 in 2006. ORA received its revised estimate through Cal-Am's data

response.

Account Number 756: Transmission and Distribution-Miscellaneous

4.30 ORA considers Cal-Am estimate for Transmission and Distribution-Miscellaneous in 2005 and 2006 reasonable after reviewing the data available.

Account Number 773: Customer Accounts-Records & Collection

4.31 ORA consider Cal-Am estimate for Customer Accounts-Records and Collection in 2005 and 2006 reasonable after reviewing the data available.

Account Number 774: Customer Accounts-Miscellaneous

4.32 The purpose of the table below is to show Cal-Am recorded expenses for this account in its work paper and how it differs with the reported numbers as filed in Cal-Am Annual Report as follows:

Source	Acct No.	Description	Recorded Years				
			1999	2000	2001	2002	2003
Workpapers	774	Operating-Misc	\$ 10,010	\$ 943	\$ 5,092	\$ 12,660	\$ 3,258
		Less: Move Toilet Rebates to Acct 799	-	-	-	-	(2,473)
		Less: Move AT&T Frame Relay to Acct 799	-	-	-	(9,131)	-
		Office & Adm Supplies	-	-	-	760	-
		Overnight Shipping	-	-	-	-	30
		Subtotal	10,010	943	5,092	4,289	815
Annual Report	774	Customer-Misc.	-	-	-	13,420	3,061
	799	General Expense-Misc	155,301	143,029	110,496	174,700	149,082

4.33 ORA disallowed the Customer Accounting Miscellaneous expense numbers in 1999, 2000, and 2001 for the following two reasons:

- The Annual Report reported no expenses for Account 774 in those years as shown in the table above.

- Cal-Am failed to show a complete accounting trail in using the numbers as recorded in its application and work paper.

4.34 ORA recommend expenses for Account 774 are:

Source	Acct No.	Description	Recorded Years				
			1999	2000	2001	2002	2003
Workpapers	774	Operating-Misc	\$ -	\$ -	\$ -	\$ 3,529	\$ 785
		Less: Move Toilet Rebates to Acct 799	-	-	-	-	-
		Less: Move AT&T Frame Relay to Acct 799	-	-	-	-	-
		Office & Adm Supplies	-	-	-	760	-
		Overnight Shipping	-	-	-	-	30
		Subtotal	-	-	-	4,289	815
Annual Report	774	Customer-Misc.	-	-	-	13,420	3,061
	799	General Expense-Misc	155,301	143,029	110,496	174,700	149,082

Account Number 775: Customer Accounts-Uncollectibles

4.35 ORA estimate for Uncollectibles are lower than Cal-Am because ORA does not escalate the recorded expenses in this account like Cal-Am. ORA's method reflects historical actual experience.

4.36 ORA uses the average of five years of recorded data resulting in a 0.0795% factor, whereas, Cal-Am uses an inflated adjustment average resulting in a 0.821% factor.

4.37 The following table shows ORA analysis:

Year	Uncollectible Expense	Revenue	ORA Uncollectible Percentagel
1999	\$ 4,309	\$ 18,271,605	0.0236%
2000	23,464	19,176,242	0.1224%
2001	9,517	18,696,080	0.0509%
2002	25,126	20,636,706	0.1218%
2003	15,765	19,962,669	0.0790%
Subtotal			0.3976%
5 Yrs. Avg			0.0795%

Maintenance Expenses

4.38 Maintenance Expenses section includes Source of Supply-Other, Pumping-Structures, Pumping-Maintenance Power Production Equipment, Pumping-Pumping Equipment, Water Treatment-Other, Transmission and Distribution-Reservoirs and Tanks, Transmission and Distribution-Mains, Transmission and Distribution-Services, Transmission and Distribution-Meters, Transmission and Distribution-Hydrants, and Transmission and Distribution-Plant. Cal-Am and ORA estimates for Test Years 2005 and 2006 are shown in the table below:

Acct No.	Expenses	2005		2006	
		Cal Am	ORA	Cal Am	ORA
713	Source of Supply	\$ 3,129	\$ -	\$ 3,218	\$ -
730	Pumping-Structures	148	148	152	152
731	Pumping-Maintenance	4,886	517	5,026	532
732	Pumping-Equipment	12,598	-	12,959	-
748	Water Treatment	328	328	357	339
760	T&D-Reservoirs-Tank	47,895	36,384	49,265	21,644
761	T & D-Mains	-	-	-	-
763	T & D-Services	-	-	-	-
764	T & D-Meters	-	-	-	-
765	T&D-Hydrants	-	-	-	-
766	T&D-Plant	-	-	-	-
	Combine 761-766	121,414	121,414	124,887	124,887
	Total -Maintenance Exp	\$ 190,398	\$ 158,791	\$ 195,864	\$ 147,554

4.39 ORA based its analysis on the expense numbers reported in Cal-Am Annual Reports filed for 1999 through 2003.

4.40 ORA made adjustments to Cal-Am recorded numbers shown in its work papers for certain Account Numbers. The adjustments to each recorded Account Numbers are detailed in the paragraphs below.

Account Number 713: Source of Supply-Other

4.41 The purpose of the table below is to show Cal-Am recorded expenses for this account in its work paper and how it differs with the reported numbers as filed in Cal-Am Annual Report as follows:

Source	Acct No.	Description	Recorded Years				
			1999	2000	2001	2002	2003
Workpapers	713	Materials & Supplies Maintenance	\$ -	\$ -	\$ -	\$ 36,029	\$ 5,409
		Less: Adjust Security Costs to Acct 799	-	-	-	(29,749)	-
		Maintenance of Structures & Improvements	-	-	4	-	-
		Materials & Supplies Maintenance	-	30	626	-	-
		Maint. Of Wells	-	-	2,307	-	-
		Subtotal	-	30	2,937	6,280	5,409
Annual Report	713	Customer-Misc.	-	-	-	-	-
	799	General Expense-Misc	155,301	143,029	110,496	174,700	149,082

4.42 ORA disallowed the Source of Supply-Other expense numbers in 1999, 2000, 2001, 2002, and 2003 for the following two reasons:

- The Annual Report reported no expenses for Account 713 in those years as shown in the table above.
- Cal-Am failed to show a complete accounting trail in using the numbers as recorded in its application and work paper.

4.43 ORA recommend expenses for Account Number 713 are:

Source	Acct No.	Description	Recorded Years				
			1999	2000	2001	2002	2003
Workpapers	713	Materials & Supplies Maintenance	\$ -	\$ -	\$ -	\$ -	\$ -
		Less: Adjust Security Costs to Acct 799	-	-	-	-	-
		Maintenance of Structures & Improvements	-	-	-	-	-
		Materials & Supplies Maintenance	-	-	-	-	-
		Maint. Of Wells	-	-	-	-	-
		Subtotal	-	-	-	-	-
Annual Report	713	Customer-Misc.	-	-	-	-	-
	799	General Expense-Misc	155,301	143,029	110,496	174,700	149,082

Account Number 730: Pumping-Structures & Improvements Maintenance

4.44 ORA considers Cal-Am estimate for Pumping-Structures and Improvements Maintenance in 2005 and 2006 reasonable after reviewing the data available.

Account Number 731: Pumping-Maintenance of Power Production Equipment

4.45 ORA consider Cal-Am revised estimate expenses for Pumping-Maintenance of Power Production Equipment to be reasonable after reviewing the data available. Cal-Am requested \$4,886 in 2005 and \$5,026 in 2006. Cal-Am now revises its estimate to \$517 in 2005 and \$532 in 2006 based on its data request response provided to ORA.

Account Number 732: Pumping-Equipment Maintenance

4.46 ORA uses Cal-Am revised estimate expenses for Pumping-Equipment Maintenance. Cal-Am requested \$12,598 in 2005 and \$12,959 in 2006. Cal-Am now revises its estimate to \$0 (zero) in 2005 and \$0 (zero) in 2006 based on its data request response provided to ORA.

Account Number 748: Maintenance of Water Treatment Equipment

4.47 ORA considers Cal-Am estimate for Maintenance of Water Treatment Equipment in 2005 and 2006 reasonable after reviewing the data available.

Account Number 760: Transmission & Distribution-Reservoirs & Tanks

4.48 ORA consider Cal-Am revised estimate expenses for Transmission and Distribution-Reservoirs and Tanks to be reasonable after reviewing the data available. Cal-Am requested \$47,895 in 2005 and \$49,265 in 2006. Cal-Am now revises its estimate to \$36,384 in 2005 and \$21,644 in 2006 based on its data request response provided to ORA.

Transmission and Distribution-Plant Maintenance

4.49 Cal-Am has consolidated Account Numbers 761, 763, 764, 765, and 766 expenses into Transmission and Distribution-Plant Maintenance.

4.50 ORA considers Cal-Am estimate for Transmission and Distribution-Plant Maintenance in 2005 and 2006 reasonable after reviewing the data available.

Administrative and General Expenses

4.51 Administrative and General Expenses section includes Office Supplies and Other Expenses, Property and Other Insurance, Worker's Compensation, Injuries, and Damages Insurance, Employee Pension and Benefits, Regulatory Expense, Outside Services, Miscellaneous General Expenses, General Plant, and Rents. Cal-Am and ORA estimates for Test Years 2005 and 2006 are shown in the table below:

Acct No.	Expenses	2005		2006	
		Cal Am	ORA	Cal Am	ORA
792	Office Supplies & Other Expenses	\$ 3,835	\$ 3,835	\$ 3,945	\$ 3,945
793	Property & Other Insurance	813	813	836	836
794	Workers Comp., Injuries & Damages	(5,425)	(5,425)	(5,580)	(5,580)
795	Employees Pension and Benefits	438,573	437,907	437,931	437,250
797	Regulatory Expense	69,907	64,030	69,907	63,202
798	Outside Services	7,756	7,756	7,978	7,978
799	Misc. General Expenses	203,138	200,998	208,948	206,403
805	General Plant	5,539	5,539	5,697	5,697
811	Rents	254,567	254,567	261,848	261,848
	Total -Administrative & General Expenses	978,704	970,020	991,511	981,579

4.52 ORA based its analysis on the expense numbers reported in Cal-Am Annual Reports filed for 1999 through 2003.

4.53 ORA made adjustments to Cal-Am recorded numbers shown in its work papers for certain Account Numbers. The adjustments to each recorded Account Numbers are detailed in the paragraphs below.

Account Number 792: Office Supplies and Other Expenses

4.54 ORA considers Cal-Am estimate for Office Supplies and Other Expenses in 2005 and 2006 reasonable after reviewing the data available.

Account Number 793: Property Insurance

4.55 ORA considers Cal-Am estimate for Property Insurance expense in 2005 and 2006 reasonable after reviewing the data available. This account was also addressed in Cal-Am General Office filing.

Account Number 794: Workers Compensation and Injuries and Damages

4.56 ORA considers Cal-Am estimate for Workers Compensation and Injuries and Damages Insurance expense in 2005 and 2006 reasonable after reviewing the data available. This account was also addressed in Cal-Am General Office filing.

Account Number 795: Employee Pension and Benefits

4.57 4.43 ORA consider Cal-Am revised estimate expenses for Employee Pension and Benefits to be reasonable after reviewing the data available. Cal-Am requested \$438,573 in 2005 and \$437,931 in 2006. Cal-Am now revises its estimate to \$437,907 in 2005 and \$437,250 in 2006.

Account Number 797: Regulatory Commission Expense

4.58 This account contains an amortization of General Rate Case and amortization of the Comprehensive Planning Study expenses. The full cost are allocated to the Coronado, Village, Sacramento, and Larkfield districts.

4.59 The Comprehensive Planning Study expense will be fully amortized in December 2005. ORA agrees with Cal-Am that \$828 expense for 2005 and \$0 (zero) for 2006 to be reasonable.

4.60 The General Rate Case Expense Summary page in the work paper under Company Personnel (Service Company) requested \$162,243. Cal-Am made an error in its workpaper for this expense. The supporting calculation for Service Company shows \$81,623. ORA has made this adjustment to Company Personnel for \$81,623.

4.61 Legal and Company Personnel estimated costs have four public meetings scheduled. Coronado District will not be holding a public meeting. ORA has adjusted the estimated cost to reflect three public meetings for Legal and Company Personnel expense.

4.62 As a result to the above adjustment, ORA recommends \$64,030 in test year 2005 and \$63,202 in 2006, whereas Cal-Am requested \$69,907 each for 2005 and 2006. ORA's adjustment is based on the above Regulatory Commission Expense paragraphs.

Account Number 798: Outside Services

4.63 ORA considers Cal-Am estimate for Outside Services expense in 2005 and 2006 reasonable after reviewing the data available.

Account Number 799: Miscellaneous General Expenses

4.64 This account includes various Transportation expenses, Miscellaneous Expense Operation for Administrative and General expenses, Inventory expenses, various Conservation expenses, Condemnation expenses, various Employee expenses, Maintenances expenses, Mailing costs, Security Service expense, various Communication expenses, and Trash expenses.

4.65 ORA disallowed Security Cost expense of \$5,840 in 2001 from the work papers. Cal-Am stated that the amount in this account was moved from Account 743. However, Cal-Am's annual report showed no expenses in Account 743 expense in its Annual Report. There was no number recorded to be moved.

4.66 Cal-Am requested \$3,400 for Security Cost in 2005 and \$3,497 for 2006. ORA recommend \$2,150 for Security Cost in 2005 and \$2,197 in 2006 based on the disallowance above paragraph.

4.67 ORA considers Cal-Am estimate for the other expenses in the Miscellaneous General Expenses account in 2005 and 2006 reasonable after reviewing the data available.

4.68 As a result of adjustment made in this account,

ORA recommend \$200,998 for Miscellaneous General Expenses in 2005 and \$206,403 in 2006, whereas Cal-Am requested \$203,138 for Miscellaneous General Expenses in 2005 and \$208,948 in 2006.

Account Number 805: Maintenance of General Plant

4.69 ORA considers Cal-Am estimate for Maintenance of General Plant expense in 2005 and 2006 reasonable after reviewing the data available.

Account Number 811: Administrative & General Rents

4.70 ORA considers Cal-Am estimate for Administrative and General Rents expense in 2005 and 2006 reasonable after reviewing the data available.

General Office Allocation Expenses

4.71 General Office Allocation Expense section was addressed in the Cal-Am Monterey Division General Office filing and the expenses of General Office to be allocated were authorized by Decision No. 03-06-043. Cal-Am and ORA estimates for Test Years 2005 and 2006 are shown in the table below:

	2005		2006	
	Cal Am	ORA	Cal Am	ORA
General Office Allocation Expense	\$ 1,799,894	\$ 1,799,894	\$ 1,856,570	\$ 1,856,570

RWE Expense Savings

4.72 RWE Expense Savings section was addressed and the method of tracking short term and long term economic benefits to Ratepayers were authorized by Decision 02-12-068. Cal-Am and ORA estimates for Test Years 2005 and 2006 are shown in the table below:

	2005		2006	
	Cal Am	ORA	Cal Am	ORA
RWE Expense Savings	\$ (41,522)	\$ (41,522)	\$ (102,348)	\$ (102,348)

CHAPTER 5

PLANT

5.1 This chapter sets forth the analyses and recommendations of ORA regarding plant. Tables J-1 and J-2 show ORA's and Cal-Am's estimates of plant for the Test Years 2005 and 2006. ORA conducted inspections of Cal-Am's system, reviewed its application, and annual reports filed with the Commission to form a basis making its estimates. ORA estimates of average Plant are \$57,938,000 for Test Year 2005 and \$59,588,500 for 2006, whereas Cal-Am requested \$58,367,200 in Test Year 2005 and \$59,998,500 in 2006. The following is a discussion of ORA findings and basis for its recommendations.

Dos Vientos Ranch Reservoir

5.2 Cal-Am requests \$1,294,000 for a reservoir and pump station in the Dos Vientos Ranch community. ORA has discovered that this project is completed and the full cost was contributed by the developer. In its accounting for the project, however, Cal-Am failed to show \$150,000 of the amount received in Contributions. ORA's makes this correction in its analysis.

Main in Las Posas System

5.3 Cal-Am proposes to replace a 12-inch main along Price Road serving its Las Posas tanks at a cost of \$1,350,100. The main appears to be in an area where the ground is subject to gradual erosion and slippage necessitating repairs averaging two times per year. ORA believes that this project is not economically justified at this time. The cost that ratepayers would bear to compensate Cal-Am for its investment would be approximately

\$200,000 per year. Based on Cal-Am's expense records, ORA estimates that repairs would total no more than \$24,000 per year. For this reason, this project should not be authorized.

El Dorado Turnout Pressure Regulating Valve

5.4 Cal-Am has requested installation of the El Dorado Turnout Pressure Regulating Valve at a cost of \$150,000. Cal-Am's basis for this installation was to satisfy Ventura County Fire Department's fire flow requirements, to reduce operation and maintenance expense, and to reduce purchased-water low-flow penalties. Cal-Am subsequently responded to ORA, however, that fire flow does not need to be increased because it meets the standards that existed when the mains were first installed. Cal-Am also responded that the project would not result in any significant savings in expense, or would it result in any reduced penalties. With the revised information, ORA recommends that the Commission withhold any authorization for this project.

Additions to Plant in Test Year 2006

5.5 Cal-Am failed to request any funds for additions to Plant for Test Year 2006. Cal-Am responds that it needs \$2,567,000 in additions to Plant for which ORA concurs in the need but recommends that Cal-Am should be authorized only the ratebase it requested in its application.

5.6 To maintain the ratebase at the level Cal-Am requested, ORA recommends accounting these additions in Plant and including the same amount in Contributions.

CHAPTER 6
DEPRECIATION

6.1 Tables A-1 and A-2 show ORA's and Cal-Am's estimates of Depreciation and Tables K-1 and K-2 show the weighted-average Accumulated Depreciation and Amortization for Test Years 2005 and 2006. The differences in ORA's and Cal-Am's estimates of depreciation are due to the differences in net plant additions, which are discussed in Chapter 5, Plant.

6.2 ORA recommends Depreciation expense of \$1,282,700 in Test Year 2005 and \$1,294,200 in Test Year 2006, whereas Cal-Am's estimates are \$1,295,200 and \$1,317,500 for 2005 and 2006.

CHAPTER 7

RATEBASE

7.1 Tables L-1 and L-2 compare ORA's and Cal-Am's estimates of Ratebase. ORA's estimates are \$20,213,100 for Test Year 2005 and \$19,824,400 for Test Year 2006, whereas Cal-Am estimates are \$20,995,700 for Test Year 2005 and \$20,910,700 for Test Year 2006. The differences are due to different estimates of Plant, Depreciation, Contributions, and Working Cash. Additions to Plant and Depreciation are discussed in Chapters 5 and 6.

Working Cash

7.2 Cal-Am's estimate for working cash in Test Year 2005 is \$732,100 and \$603,500 in 2006, whereas ORA's estimate is \$480,300 in 2005 and \$530,600 in 2006. The differences are attributable to the calculation of lead-lag days for: 1) Purchased Power, 2) Federal and State Income Taxes, 3) Ad Valorem Taxes, 4) PUC Surcharge, 5) Customer Deposits, and 6) Amortization of Deferred Taxes.

Purchased Power

7.3 In calculating the days of lead and lag, Cal-Am made an error by not including the purchases from City of Pasadena. ORA corrects this error.

Federal and State Income Tax

7.4 ORA corrected an error Cal-Am made in the number of days between payment quarters and payment dates.

Ad Valorem Taxes

7.5 Cal-Am makes the property tax payments on March 19th rather than paying it on or closer to the mandatory date of April 10th. ORA has given Cal-Am one week period to

make such payments and made the due adjustments in the lead lag study.

PUC Surcharge

7.6 Cal-Am assumed that its PUC Surcharge collections would be deposited April 15, whereas the remittance were received on April 19, 2004. ORA assumes this pattern will prevail for the Test Year, also.

Customer Deposits

7.7 Cal-Am refunds the customer deposits after customers have established credit with the utility. ORA has recognized that the advance payment by the customers is a reduction in the Operational Working Cash requirements.

Amortization of Deferred Taxes

7.8 Cal-Am calculates the amount for Amortization of Deferred Tax for both the test years as zero. ORA calculates \$-131,800 for 2005 and \$-144,700 for 2006. These should be negative number because Cal-Am customers fund this expense through ACRS/MACRS (Modified Accelerated Cost Recovery System), before Cal-Am pays this tax. ORA's estimates also differ from Cal-Am's due to its differing estimates of Ratebase.

CHAPTER 8
MISCELLANEOUS

8.1 A Notice of Increased Rates was published in Thousand Oak area newspapers on April 13 and 22. Notices were directly mailed to the company's customers on May 14, 2004.

Customer Service and Protests

8.2 ORA, through the Commission Public Advisor's Office, has received no protest to the proposed increase in rates and addressing various related cost issues such as memorandum accounts, service, compensation, water quality, and management of the water system.

8.3 The Consumer Services Division has received eight informal complaints involving rates, billing, installation, service, miscellaneous, and non-regulated issues for the period January 1999, to December 2003.

8.4 ORA contacted the Department of Health Services which advised that the overall operation and condition of Cal-Am's facilities and water quality are satisfactory and that there are no compliance orders or other matters that require correction.

Water Management Program

8.5 As a part of its application, Cal-Am submitted a Water Management Plan as required by D.90-08-055. It describes the conservation, landscaping, and education measures in which Cal-Am is participating to make certain that its supply will remain secure for the foreseeable future. The program appears reasonable to ORA.

MTBE Litigation

8.6 Cal-Am informed the Commission that it filed a

lawsuit in the Monterey County Superior Court on September 30, 2003, and filed a First Amended Complaint on November 14, 2003, naming as defendants 17 major oil and chemical companies that manufacture MTBE, refine gasoline containing MTBE, and/or supply gasoline containing MTBE to retail gasoline stations in the vicinity of certain of Cal-Am's drinking water production wells located throughout California, including in the Southern Division.

8.7 In its response to ORA's data request, Cal-Am indicated that investigation is progressing and as of yet, it has not identified any sites of current, threatened, or potential MTBE contamination in the Coronado Service area.

8.8 ORA recommends that any settlement obtained as a result of this litigation should be tracked in the current contamination memorandum account and should be passed on to benefit the ratepayers.

CHAPTER 9
DESIGN OF RATES

9.1 This chapter sets forth the recommendations of ORA regarding design of rates. In D.86-05-064, the Commission issued its Water Rate Design Policy and addressed the following aspects of rate design:

- Service charges as a percentage of fixed costs
- Number of commodity blocks
- Phasing out lifeline rates
- Seasonal rates, and
- Conservation in rates.

9.2 The policy requires that service charges be set to recover up to 50% of fixed costs. The recovery of up to 50% of fixed cost should be done if possible without burdening any class of customers with an increase significantly more than the average overall increase.

9.3 Cal-Am's application in its proposed rate schedules follows the Commission's policies and no change in design is needed.

Billing for Franchise Fees

9.4 Cal-Am requests authority to separately show as a surcharge on customers' bills an amount for the franchise tax levied on customers in the cities it serves. Currently, Ventura County and City of Thousand Oaks, collect a franchise tax from Cal-Am equal to 2% of the revenue from the customers in the city. The amount is not separately stated on customers' bills, but is included in general rates.

9.5 As one of the Special Rate Request, Cal-Am is requesting that these franchise fees and any others that

might be imposed on Cal-Am in the future, be eliminated from general rates and instead shown as a separate item and accounted for separately. This would be accomplished by Cal-Am filing revised tariffs to show a special condition calling for a surcharge.

9.6 ORA believes such additional administrative effort on the part of Cal-Am and the Commission staff would serve no useful purpose and would add clutter to customers bills. Specifically, the Commission has considered such matters and issued D.89-05-063 that establishes the policy for the treatment of taxes and fees imposed by local governments on regulated utilities.

9.7 The Commission's policy has two guidelines for utilities subject to special assessments. One of which is that "if the special taxes or fees imposed by a locality tend to total about the same level as those imposed by other localities in the service territory, the assessment should be included in base rate."

9.8 As Cal-Am states, both City of Thousand Oaks and Ventura County are collecting 2% each of the net revenues of Cal-Am's customers living in the jurisdictional boundary of the entity assessing the fee. If franchise fees are to be assessed by other entities in the future, Cal-Am believes it would likely be similar to that assessed by City of Thousand Oaks or Ventura County.

9.9 As such, Cal-Am should include both of these franchise taxes in its basic rates in conformance with the Commission's policy. ORA recommends, therefore, that this request be denied.

Increase After-Hour Reconnection Charge

9.10 Cal-Am requests that it be authorized to increase its after-hour reconnection charge from \$15 to \$50 in order to recover more of its actual costs and be of sufficient magnitude to discourage customers from letting their service be terminated for non-payment.

9.11 The after-hour reconnection charge is specified in Cal-Am's Tariff Rule 11.C.1 and has not been changed since 1973. The after-hour reconnection charge applies to customers who request re-establish service after normal business hours when their service has been terminated for non-payment.

9.12 The present charge of \$15 fails to cover Cal-Am's estimated expense of approximately \$70 for overtime and other expenses required to carry out such reconnections.

9.13 ORA agrees that this increase to \$50 appears to be justified on the basis of actual expenses. ORA further has estimated the additional revenue from such charges in Chapter 3, Operating Revenues.

Rate Assistance for Low-Income Customers

9.14 In Commission Decision No. 02-12-067, Cal-Am was ordered to work with the Commission to establish a company-wide low-income program, and to, for five years, fund a portion of the program with \$50,000 of shareholder funds.

9.15 Cal-Am proposes to provide assistance to its direct customers as well as non-customer water users¹. Cal-Am's low-income rate proposal, included in this application,

¹ Cal-Am defines water users as those in its service territory that are the end users of the water, including low-income households residing in

adopts the same income eligibility guidelines as the energy CARE program². For eligible direct metered customers, the company proposes to waive the service charge portion of its billing up to \$10.00 per month (whichever is lower). Qualified direct flat rate customers (primarily residing in the Sacramento Division) would receive waiver of one-half the monthly charge or a reduction in billing of \$10.00 per month; whichever is greater.

9.16 Cal-Am proposes to provide assistance to low-income non-customer water users who receive service through either an individual meter or a master meter but do not receive or pay a bill for water service. It is presumed that payment for water service is included in rent payments to the landlord who is the company's customer of record. Cal-Am proposes to provide the non-customer water user with assistance in the form of a reduction in rent.

9.17 To accomplish this, Cal-Am proposes to provide the non-customer water user with a coupon equivalent to the lower of the monthly service charge paid by a 5/8 inch metered Cal-Am customer in the district, or \$10.00 per month whichever is lower. In order to enroll in the program, the tenant will be required to submit to the company, a certified written agreement signed by the landlord stating that the tenant's rent will be reduced by the amount of the water coupon. The landlord could then remit the water coupon to Cal-Am for payment of the charges associated with the master meter.

9.18 In addition to the low-income assistance program, Cal-Am proposes mandatory conservation kits be installed at Cal-Am's expense. The company also proposes a

rental property served through a master meter.

² CARE income guideline is 175% of the federal poverty guideline.

rebate program allowing up to \$100 dollars for replacement of each high water use fixture or appliance.

Staff Analyses and Recommendation

9.19 ORA opposes Cal-Am's low-income program, as described in this application. The program proposed by Cal-Am is overly complex and would likely prove burdensome to the company's ratepayers.

9.20 The program is overly complex because it requires the utility to take on the additional tasks of; identifying all qualified non-customer water users, verifying the validity of signed landlord and tenant agreements, distributing and tracking the assistance coupons to the non-customer, and ensuring whether the promised decrease in rent, in exchange for the low-income water coupon, is actually passed on to the tenants.

9.21 The additional costs to implement and manage a low-income program that includes assistance of up to \$10.00 per month per non-customer water user could dramatically increase the total cost of the program. Presently, the number of potential qualified non-customer water users is unknown. It is possible that the qualified non-customer water users may outnumber the qualified customers.

9.22 Since the program will be supported by increased rates to the company's ratepayers who exceed the income eligibility limits, it is important that the costs be reasonable and not over-burden ratepayers.

9.23 Cal-Am's application is deficient in that it includes no estimate of the costs associated with its proposal, to provide assistance to either its own customers or non-customer water users. Other than economic demographics obtained from the 2000 Census, Cal-Am failed to provide sufficient information to support either the need

for program, or the number of customers and non-customer water users who would likely benefit from such a program.

9.24 In October 31, 2003, ORA prepared a report on the status of low-income programs for water service entitled, "Programs for Low-Income Water Customers". Attached to this report is a copy of ORA's October 31st report. In its report, ORA examined the low-income proposals submitted by Class A water utilities. As part of its report, ORA proposed a simple standardized program that could be easily implemented and provide an adequate amount of relief to low-income water customers. In response to Cal-Am's program described in this application, ORA recommend its alternative program to provide assistance to Cal-Am's low-income customers.

9.25 In Cal-Am's most recent GRC, A.03-07-036, ORA proposed a program of assistance that would provide a 15% discount for qualified low-income customers directly served by the company, as well as, water users served via a sub-metered system. Households residing in mobile home parks or multi-family complexes, receiving water via a sub-meter, are typically billed by their landlord (the utility's master-meter customer) according to the utility's approved tariff. Extending a low-income program to these users is consistent with the provisions of the CARE program already established for energy service. In A.03-07-036, ORA and Cal-Am reached a settlement agreement to implement ORA's proposal.³

9.26 In this proceeding, ORA recommend that Cal-Am adopt the same percentage discount program as agreed to in A.03-07-036.

9.27 ORA's proposal is consistent with the CARE program, and can be easily implemented by the utility and

³ A final decision in A.03-07-036 has not yet been rendered.

would be easily understood by consumers already familiar with CARE. While a 15% discount provides an adequate reduction to the total amount billed, the amount is not so high as to encourage excessive water consumption

9.28 The inclusion of households residing in housing such as apartments, served via a master meter where their individual use is not sub-metered, presents many complex issues and unanswered questions, including;

- The inability to determine the appropriate discount or assistance since tenants' water use is not metered,
- Is it be fair to provide the same assistance to all tenants regardless of their actual use?
- Should the assistance be delivered directly to the tenant or to the master meter customer?

9.29 The additional conservation measures and appliance rebate program proposed by Cal-Am are not necessary as part of the low-income program. There is no evidence to suggest that water consumption will significantly increase in conjunction with providing assistance to low-income customers. The company has filed a water management plan that includes proposals similar to those included as part of the low-income proposal.

9.30 ORA recommends that the revenue shortfall associated with the low-income program be recorded in a memorandum account. Other expenses associated with the program should be recorded in the company's appropriate expense accounts.

9.31 According to D.02-12-068, Cal-Am is required to allocate \$50,000 per year for five years to the

implementation of low-income programs in its service territories in California.⁴ Therefore, a portion of the costs associated with this program will be covered by these allocated funds and are not recoverable from ratepayers. After a period when recoverable costs of the program are known, Cal-Am can request recovery through an adjustment in rates.

⁴ Decision (D) 02-12-068, to transfer control of California-American Water Company (under the parent company American Water Works Company) to RWE Aktiengesellschaft.

CHAPTER 10

ATTRITION

10.1 An allowance is needed when increases in revenue and productivity are insufficient to offset increases in expenses (including the effect of cost of capital), thereby causing a decline in the rate of return. Since the Commission expects water utilities to file for an increase no more frequently than once every three years, an allowance to compensate for a possible shortfall in revenue in the years following the last test year may be necessary.

10.2 The allowance consists of two parts: operational and financial. Operational attrition is the result of changes in rate of return due to changes in revenues, expenses, and ratebase at proposed rates between the first and second Test Year. Financial attrition occurs when there is a change in the utility's cost of capital between Test Years. The total attrition is the sum of operational and financial attrition.

10.3 The difference in ORA's and Cal-Am's estimates for Attrition Year 2007 is due to their different estimates of revenues, expenses, ratebase, and rate of return.